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FISCAL IMPACT STATEMENT

LS 6859

BILL NUMBER: SB 293

NOTE PREPARED: Jan 26, 2012

BILL AMENDED: Jan 26, 2012

SUBJECT: Inheritance Tax.

FIRST AUTHOR: Sen. Smith J

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill reclassifies a spouse, widow, or widower of a child of the transferor as a Class A transferee instead of a Class B transferee. It reclassifies a spouse, widow, or widower of a stepchild of the transferor as a Class A transferee instead of a Class C transferee.

The bill annually increases the Inheritance Tax exemption amounts through 2015. It provides that the tax base for determining the Inheritance Tax includes the exempted amount but applies a 0% tax rate to transfers that are equal to or less than the exempted amount. The bill also reduces the Inheritance Tax rates by 50% for transfers resulting from the death of an individual who dies after June 30, 2016.

Effective Date: July 1, 2012.

Summary of Net State Impact: This bill will decrease Indiana Inheritance Tax revenues beginning in FY 2014. The bill is expected to increase state General Fund expenditures on county Inheritance Tax replacement. The net state impact of the bill is summarized in the table below.

Fiscal Year Impact	Inheritance Tax	Additional County Replacement Expenditures	Net Increase (Decrease)
FY 2014	(\$3.8 M - \$4.3 M)	\$0	(\$3.8 M - \$4.3 M)
FY 2015	(\$29.4 M - \$37.3 M)	(\$16,000 - \$18,000)	\$29.4 M - \$37.3 M)
FY 2016	(\$46.6 M - \$57.8 M)	(\$0.2 M - \$0.3 M)	(\$46.8 M - \$58.1 M)
FY 2017	(\$61.9 M - \$76.9 M)	(\$0.4 M - \$0.5 M)	(\$62.3 M - \$77.4 M)
FY 2018	(\$91.7 M - \$98.3 M)	(\$0.6 M - \$1.0 M)	(\$92.3 M - \$99.3 M)
FY 2019 and after	(\$91.7 M - \$98.3 M)	(\$1.5 M - \$1.7 M)	(\$93.2 M - \$100.0 M)

Explanation of State Expenditures: *County Inheritance Tax Replacement* - This bill could potentially increase expenditures from the state General Fund for county Inheritance Tax replacement beginning in FY 2015. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.) Replacement funding may vary depending on how much each county's base revenue differs from the amount guaranteed by current statute.

Explanation of State Revenues: (Revised) *Summary* - This bill is expected to decrease Inheritance Tax revenue annually beginning in FY 2014. Estimates are provided in the table below.

Fiscal Year Impact	Inheritance Tax
FY 2014	(\$3.8 M - \$4.3 M)
FY 2015	(\$29.4 M - \$37.3 M)
FY 2016	(\$46.6 M - \$57.8 M)
FY 2017	(\$61.9 M - \$76.9 M)
FY 2018 and after	(\$91.7 M - \$98.3 M)

This bill makes several changes to the Inheritance Tax, First. The bill increases the exemption amounts for Class A, Class B, and Class C transferees as follows:

Transfers made from persons dying . . .	New Class A Exemption	New Class B Exemption	New Class C Exemption
After June 30, 2012, and before July 1, 2013	\$300,000	\$25,000	\$25,000
After June 30, 2013, and before July 1, 2014	\$500,000	\$50,000	\$50,000
After June 30, 2014, and before July 1, 2015	\$700,000	\$75,000	\$75,000
After June 30, 2015	\$1,000,000	\$100,000	\$100,000

As the exemptions are increased, the bill also provides new calculations for determining Inheritance Tax liability. The bill provides that the tax base for determining the Inheritance Tax includes the exempted amount but applies a 0% tax rate to transfers that are equal to or less than the exempted amount. Current statute provides that the Inheritance Tax is calculated based upon the net taxable value of property interests transferred, minus exemptions and deductions provided under IC 6-4.1-3.

Second, the bill reduces the tax rates by 50% for Class A, Class B, and Class C transferees beginning in FY 2017, which will impact fiscal years beginning in FY 2018. This change accounts for about \$20 M to \$30 M of the total state revenue loss beginning in FY 2018.

Finally, the bill reclassifies a spouse, widow, or widower of a child of the transferor as a Class A transferee instead of a Class B transferee. This change accounts for about \$1.3 M to \$1.5 M of the total state revenue loss. This bill also provides that a spouse, widow, or widower of a child or stepchild of a transferor is a Class A transferee rather than a Class C transferee. The impact of this specific provision is indeterminable.

Background Information - Class A transferees include parents, grandparents, children, stepchildren, and grandchildren. Class B transferees include sisters, brothers, nieces, nephews, daughters-in-law, and sons-in-law. Class C transferees include aunts, uncles, and all other transferees that are neither Class A or Class B. The bill's changes to the Inheritance Tax will be effective July 1, 2012, and will apply to any decedent whose death occurs after June 30, 2012. The Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early payment discount). The initial fiscal impact of this bill would occur in FY 2014.

The estimated fiscal impact is based on the Office of Fiscal and Management Analysis (OFMA) Inheritance Tax database and the Revenue Technical Committee's FY 2012 forecast (published December 14, 2011). The forecast estimates FY 2012 revenue from the Inheritance Tax at \$165 M. The estimated revenue loss assumes that Inheritance Tax revenues would remain relatively constant after FY 2012 absent the bill's changes. The Inheritance Tax database is comprised of about 600,000 records of transferees receiving assets from a decedent who died between July 1, 1997, and October 30, 2011. Annual sample totals suggest that Class A beneficiaries account for about 48.8% of annual Inheritance Tax revenue (about \$81 M of the forecast amount), Class B beneficiaries account for about 29.2% of annual Inheritance Tax revenue (about \$48 M of the forecast amount), and Class C beneficiaries account for about 21.9% of annual Inheritance Tax revenue (about \$36 M of the forecast amount). About 99.2% of total Inheritance Tax collections are from Indiana residents. Simulations with the sample returns suggest that the exemption increase could reduce revenue from Class A beneficiaries by about 39% to 47%, Class B beneficiaries by about 35% to 41%, and Class C beneficiaries by about 23% to 30%.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary* - The increases in the Inheritance Tax exemptions could potentially result in the net impact to counties as summarized in the table below.

Fiscal Year Impact	Inheritance Tax	Additional County Replacement Expenditures	Net Increase (Decrease)
FY 2014	(\$0.3 M - \$0.4 M)	\$0	(\$0.3 M - \$0.4 M)
FY 2015	(\$2.5 M - \$3.2 M)	\$16,000 - \$18,000	(\$2.5 M - \$3.2 M)
FY 2016	(\$4.0 M - \$5.0 M)	\$0.2 M - \$0.3 M	(\$3.8 M - \$4.7 M)
FY 2017	(\$5.3 M - \$6.6 M)	\$0.4 M - \$0.5 M	(\$4.9 M - \$6.1 M)
FY 2018	(\$7.9 M - \$8.5 M)	\$0.6 M - \$1.0 M	(\$7.3 M - \$7.5 M)
FY 2019 and after	(\$7.9 M - \$8.5 M)	\$1.5 M - \$1.7 M	(\$6.4 M - \$6.8 M)

Background Information - Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents and are guaranteed a statutorily determined amount from the Inheritance Tax under P.L.254-1997. This legislation increased the Class A exemption to \$100,000, effective July 1, 1997, and required the state to annually transfer money from the state General Fund to counties to replace county Inheritance Tax revenue lost due to the exemption increase. The replacement provision guarantees that each county receive an amount of Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997, excluding the highest year and lowest year. The total annual guarantee to counties is approximately \$7.4 M, with replacement payments averaging about \$113,000 since FY 2006. The reductions in county Inheritance Tax are estimated to increase additional Inheritance Tax replacement payments from the state General Fund beginning in FY 2015. (Note: Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.)

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: OFMA Inheritance Tax Database; Revenue Technical Committee, *State Revenue Forecast, Fiscal Years 2012 and 2013*, December 14, 2011; Quarterly Inheritance Tax Reports, FY 1997-FY 2011.

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